

Message Text

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 1284

INFOZEN/AMCONSUL ZAGREB

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PASS AGRICULTURE

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TAGS: ECON, EFIN, EPAP, ETRD, YO

SUBJ: HIGHLIGHTS OF YUGOSLAV ECONOMIC TRENDS

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SUMMARY: HIGHLIGHTS OF YUGOSLAV ECONOMIC TRENDS IN FIRST TEN MONTHS
1974 SHOW DETERIORATING TRADE BALANCE AND ACCELERATING RATE OF INFLA-
TION ACCOMPANIED BY CONTINUED STRONG PERFORMANCE IN INDUSTRIAL
PRODUCTION, INVESTMENT AND EMPLOYMENT. AGRICULTURAL
RESULTS ARE MIXED. END SUMMARY

1. ON THE EXTERNAL SIDE A DEFICIT IN THE CURRENT ACCOUNT OF \$900
MILLION TO \$1 BILLION IS PREDICTED DESPITE INCREASED RECEIPTS FROM
WORKERS REMITTANCES AND TOURISM WHICH CANNOT OFFSET A GROWING
TRADE DEFICIT THAT REACHED \$3 BILLION FOR THE 10-MONTH PERIOD.
YUGOSLAV RESERVES ARE REPORTED AT \$1.4 BILLION IN NOV AND ARE NOT
EXPECTED TO FALL BELOW \$1.2 BILLION.

A. TRADE ACCOUNT: OFFICIAL DATA FOR JAN-OCT 1974
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SHOW CONTINUED DETERIORATION IN BALANCE OF TRADE WHOSE 10

MONTHS DEFICIT REACHED \$3.1 BILLION, AN INCREASE OF 138 PERCENT COMPARED TO DEFICIT SAME PERIOD IN 1973. PRIMARY CAUSE OF WORSENING TRADE BALANCE IS PRICE INCREASES OF RAW MATERIALS AND SEMI-MANUFACTURES, USED CHIEFLY IN YUGOSLAV INDUSTRIAL PRODUCTION, WHICH ACCOUNT FOR 2/3DS OF IMPORTS. OIL PRICE INCREASE ALONE WILL COST YUGOSLAVIA ADDED \$600 MILLION IN 1974. BY COMPARISON WITH JAN-OCT 1973, IMPORTS (VALUE) IN JAN/OCT 1974 INCREASED 74 PERCENT, WHILE EXPORTS (VALUE) IN SAME PERIOD ROSE ONLY 37 PERCENT. IMPORT PRICES INCREASED 51 PERCENT COMPARED TO 34 PERCENT FOR EXPORTS IN JAN/OCT 1974. EEC BAN ON BEEF IMPORTS PREVENTED EXPORTS OF ABOUT \$100 MILLION AND CONTRIBUTED TO SLIGHT DECLINE IN EEC SHARE OF YUGOSLAVIA'S FOREIGN TRADE. TRADE WITH LDCS, WHO ACCOUNT FOR ABOUT 11 PERCENT OF YUGOSLAV EXPORTS AND 16 PERCENT OF IMPORTS CONTINUED STEADY GROWTH.

B. INVISIBLES: DATA FOR SEVEN MONTHS AND CONVERSATIONS WITH ECONOMIC AND BANKING OFFICIALS INDICATE YUGOSLAVIA WILL HAVE INCREASE OF 10 TO 12 PERCENT IN EARNINGS FROM TOURISM AND 15 TO 20 PERCENT FROM WORKERS REMITTANCES. INCOME FROM TOURISM SHOULD REACH \$700 MILLION AND THAT FROM WORKERS REMITTANCES BETWEEN \$1.5 AND \$1.6 BILLION. BOTH OF THESE SOURCES OF HARD CURRENCY EARNINGS,

WHICH EXPANDED RAPIDLY IN PREVIOUS FOUR YEARS, ARE EXPECTED TO REMAIN RELATIVELY STABLE IN 1975 WITH MODERATE INCREASES DUE TO HIGHER PER CAPITA SPENDING IN TOURISM AND HIGHER PER CAPITA SAVINGS AMONG WORKERS ABROAD. INVISIBLE EARNINGS FROM OVERSEAS CONSTRUCTION PROJECTS ARE REPORTEDLY ADVANCING STEADILY AND SHOULD CONTINUE IN 1975 ALTHOUGH FROM A MUCH SMALLER BASE THAN TOURISM OR WORKERS REMITTANCES.

C. CURRENT ACCOUNT: A DEFICIT ON THE CURRENT ACCOUNT OF BETWEEN \$900 MILLION AND \$1 BILLION IS ANTICIPATED IN 1974. WHILE LARGE, THE DEFICIT IS NOT UNMANAGEABLE DUE IN PART TO HIGH LEVEL OF RESERVES FROM 1972 AND 1973 SURPLUSES. NEW BORROWINGS HAVE FINANCED PART OF THE DEFICIT, INCLUDING A DRAWING OF \$40 MILLION FROM IMF OIL FACILITY, BUT THERE IS EVIDENCE IT IS BECOMING MORE DIFFICULT TO SECURE FOREIGN LENDING. AN OFFICIAL OF THE NATIONAL BANK TOLD THE EMBASSY THAT YUGOSLAV RESERVES WERE \$1.4 BILLION IN NOVEMBER AND WILL NOT FALL BELOW \$1.2 BILLION. LIMITED OFFICIAL USE

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D. 1975 POLICY: WHILE SPECIFICS OF YUGOSLAV 1975 ECONOMIC POLICY HAVE NOT YET BEEN ANNOUNCED, ALL SOURCES AGREE REDUCTION OF BALANCE OF PAYMENTS DEFICIT WILL HAVE TOP PRIORITY. TO ACCOMPLISH THIS, YUGOSLAVS WILL STRESS EXPORT EXPANSION AT SAME TIME THEY UNDERTAKE MEASURES TO HOLD DOWN IMPORT GROWTH. GOVERNOR OF NATIONAL BANK COLANOVIC, IN DISCUSSING RECENT 7 PERCENT DOWNWARD ADJUSTMENT OF DINAR'S MARKET RATE, EMPHASIZED IMPORTANCE OF

EXPORT GROWTH IN 1975 AND SAID STRONGER CREDIT SUPPORT FOR EXPORTS WILL BE PART OF PROGRAM. NISIM KONFINO, FEC SECRETARY FOR STUDY OF ECONOMIC TRENDS, ANNOUNCED 1975 GOAL OF 4 PERCENT INCREASE IN IMPORTS (VOLUME) AND 10 PERCENT INCREASE IN EXPORTS (VOLUME) AND DESCRIBED FORTHCOMING PROGRAM AS TRANSITION FROM DEFENSIVE POLICY, WHICH EMPHASIZED IMPORT RESTRICTIONS, TO AN OFFENSIVE POLICY, WHICH EMPHASIZES EXPORT GROWTH IN COMBINATION WITH REDUCED IMPMGTS -- ESPECIALLY CONSUMER GOODS.

2. ON THE DOMESTIC SIDE, INDUSTRIAL PRODUCTION CONTINUES ITS STRONG EXPANSION AND EMPLOYMENT IS UP. A RECORD WHEAT CROP HAS BEEN HARVESTED. EXTREMELY HEAVY OCTOBER RAINS AND FLOOD COMPLICATED THE AGRICULTURAL SITUATION AND HELD POTENTIAL RECORD CORN CROP HOSTAGE

FOR OVER 5 WEEKS. A RELATIVELY DRY AND WARM NOVEMBER HAS PERMITTED BELATED HARVEST. RETAIL PRICES AND COST OF LIVING INCREASES ARE ACCELERATING AND YEARLY RATE OF INFLATION IS ESTIMATED BETWEEN 25 AND 30 PERCENT.

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PASS AGRICULTURE

A. INDUSTRIAL PRODUCTION PACED BY STRONG PERFORMANCE IN ELECTRIC, CHEMICAL AND LUMBER INDUSTRIES, IS UP ALMOST 10 PERCENT IN FIRST TEN

MONTHS 1974. INVESTMENT SPENDING ROSE 45 PERCENT IN FIRST 8 MONTHS. EMPLOYMENT HAS RISEN 4.2 PERCENT, HOWEVER, THE NUMBE OF UNEMPLOYED HAS ALSO INCREASED. INDUSTRIAL PRODUCTION AND EMPLOYMENT FIGURES EXCEED PLANNED GROWTH RATES OF 8 PERCENT AND 3 PERCENT RESPECTIVELY. MAJOR SOFT SPOT IN INDUSTRY IS STAGNATING AUTHOMIBLE SALES, WHICH HAVE RESULTED IN REPORTED UNSOLD INVENTORY OF 20,000 CARS.

B. YUGOSLAVIA HAS ENJOYED MIXED YEAR AGRICULTURALLY. A RECORD WHEAT HARVEST OF OVER 6 MILLION TONS IS COMPLETED AND PROMISES SIGNIFICANT SAVINGS PN IMPORTS. EXTREMELY HEAVY OCTOBER RAINS AND FLOOD STREATENED FALL HARVEST OF CORN, SUGAR BEETS AND SUN-FLOWERS AS WELL AS PLANING OF WINTER WHEAT. RELATIVELY DRY AND WARM NOVEMBER HAS PERMITTED BELATED HARVEST OF THESE CROPS WITH ESTIMATED 7.5 MILLION TONS OF CORN, DOWN FROM 8.3 MILLION IN 1973 BELOW DOMESTIC NEEDS OF ABOUT 8 MILLION. WINTER WHEAT WILL NOT BE PLANTED IN AMOUNTS PLANNED. LIVESTOCK INDUSTRY STILL SUFFERS FROM EEC BAN ON BEEF IMPORTS AND WHILE SUBSIDIES ARE BEING PAID, THEY HAVE NOT SOLVED THE ROBLEMS OF THIS SECTOR WHICH LIMITED OFFICIAL USE

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INCLUDE
SLAUGHTER OF STOCK ESPECIALLY IN PRIVATE SECTOR.

C. INFLATION HAS ACCELERATED AND MAY REACH 30 PERCENT BY END 1974. NINE-MONTH FIGURES SHOW COST OF LIVING AND RETAIL PRICE INCREASES OF 21 TO 25 PERCENT RESPECTIVELY. RELATIVELY SLOWER GROWTH OF PRICES OF AGRICULTURE PRODUCTS HAS PREVENTED INFLATIONARY TRENDS FROM WORSENING, BUT THESE PRICES ARE ALSO EXPECTD TO RISE MORE RAPIDLY IN 4TH QUARTER. YUGOSLAV ECONOMISTS ESTIMATE ONE-HALF RATE OF INFLATION IS DUE TO PRICE INCREASE OF IMPORTS. REAL WAGES WHICH WERE UP 10 PERCENT, IN FIRST SIX MONTHS HAVE NOT KEPT PACE WITH PRICE RISES AND MAY BE HELD TO 2-4 PERCENT FOR THE YEAR.

D.MAJOR GOALS OF YUGOSLAV DOMESTIC POLICY IN 1975 WILL PROBABLY INCLUDE:

- (1) 7 TO 8 PERCENT GROWTH IN INDUSTRIAL PRODUCTION.
- (2) DECREASE IN VOLUME OF OVERALL SPENDING WHILE INCREASING INVESTMENT IN PRIORITY SECTORS OF ENERGY, RAW MATERIALS AND AGRICULTURE.

WHILE A REDUCTION OF INFLATION TO 17 TO 18 PERCENT WILL ALSO BE A GOAL AND SUBJECT OF CONSIDERABLE RHETORIC, YUGOSLAV ECONOMIC OFFICIALS HAVE TOLD THE EMBASSY THE COUNTRY CANNOT SACRIFICE ITS DEVELOPMENT PLANS TO THIS EFFORT. GOVERNOR OF THE NATIONAL BANK COLANOVIC HAS SAID MONEY SUPPLY WILL INCREASE BY ABOUT 28 PERCENT IN 1975 WITH 3/4S OF INCREASE

GOING INTO ECONOMIC SECTOR. IN MEETING GOALS OF 1975 ECONOMIC POLICY LCY APPARENTLY PLANS TO PLAY A LEADING ROLE IN IMPLEMENTING THAT POLICY, USING ITS POWER OF MORAL SUASION AND LEADERSHIP TO NEGOTIATE AND PROMOTE SOCIAL ACCORDS AND SELF-MANAGEMENT AGREEMENTS CONSIDERED IN NATIONAL INTEREST.

3. COMMENT: YUGOSLAV ECONOMIC PERFORMANCE IN 1974 HAS BEEN GENERALL IMPRESSIVE DESPITE INTERRELATED BALANCE OF PAYMENTS AND INFLATION PROBLEMS. 1975 LOOMS AS A KEY YEAR, HOWEVER, IF ECONOMY IS TO OVERCOME THESE PROBLEMS WHOSE MAGNITUDE RESULTED PARTLY FROM DRAMATIC INTERNATIONAL EVENTS, BUT WHICH ALSO HIGHLIGHTED LIMITED OFFICIAL USE

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WEAKNESSES IN STRUCTURE OF YUGOSLAV ECONOMY AND ECONOMIC DECISION MAKING. IF GROWTH GOALS OF SOCIETY, WHICH REQUIRE CONTINUED SUBSTANTIAL FOREIGN INVESTMENT ARE TO BE MET IN COMING YEARS, THE COUNTRY MUST CONTROL SIZE OF PAYMENTS DEFICIT AND MUST BE MORE EFFECTIVE IN CONTROLLING SPENDING AND CHANNELING INESTMENT INTO PRIORITY SECTORS. HOMILIES FROM THE FEC WILL BE INSUFFICIENT TO ACCOMPLISH THESE TASKS. PRELIMINARY EVIDENCE SUGGESTS SOUND PRACTICAL APPROACH TO BALANCE OF PAYMENTS PROBLEM AT LEAST IN SHORT-TERM MEASURES, ALTHOUGH INTERNATIONAL EVENTS MAY UPSET PLANS, E.G., ENERGY PRICES AND LEVEL OV EMPLOYMENT OF YUGOSLAV WORKERS IN WESTERN EUROPE.

BASIC TO LONG-TERM SOLUTION TO BOTH BALANCE OF PAYMENTS AND INFLATION PROBLEMS IN SUCCESSFUL DEVELOPMENT OF SUBSTANTIAL ENERGY, RAW MATERIAL, AND AGRICULTURAL BASE -- WHICH WILL SAVE IMPORTS AND EXPAND EXPORTS. HOWEVER, IMPORTANT DOMESTIC INVESTMENT AND INCOME DECISIONS CAUGHT IN THE COMPLEX WEB OF INTERNAL POLITICS AND DECENTRALIZED DECISION MAKING, MAY BE STILLBORNE UNLESS LCY PLAYS ROLE OF MID-WIFE SUCCESSFULLY.
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